651 during these years should not be interpreted to mean a constant tax burden imposed on these sectors of the Chinese economy. In absolute terms, their contributions have continually increased in order to meet the ever-expanding expenditure of the government.

On the whole, the fiscal policy of the Communist government has been more unfavorable to industry and trade than to agriculture. During the five-year period under consideration, private enterprise in industry and trade not only has had to bear a great burden of the increasing expenditure of the government, but also has been forced to accept stiff competition from government enterprises, which, according to the Communist policy, will ultimately monopolize all the important trade and industries in the country.

652 On the expenditure side, military outlay
659 constituted 41.5 per cent of total government expenditure in 1950 and 1951, respectively. After 1952, becuase of the truce in Korea, the relative importance of the military outlay has been substantially reduced. In 1954, it was only 21.1 per cent of the year's total expenditure. The outlay for economic construction has become the leading item on the debit side of the government account.

In making these comparisons, several qualifications should be noted. First, the military expenditures as listed in the records of the Communist government do not include salaries and maintenance of military personnel, which are classified as government administrative expenses. Military outlays listed in the

652 budgets of the Nationalist Government, on the 659 other hand, consisted mainly of such salary and maintenance payments. If the definition of military expenditure were broadened to include such outlays, and if one half of the administrative expenses listed in the Communist budget were for the payment of military personnel and military administration as the estimates suggest, then the military expenditures of the Communist government for the years 1950-52 would have been as tabulated here.

Year	Ratio of Military Expenditure to Total Gov't Expenditure (in per cent)
1950	51.11
1951	49.83
1952	32.15
1953	29.45 (budget estimate)
1954	30.06
1955	32.98 (budget estimate)

In the fiscal report for 1953 the military and government administration expenditures were lumped together under one item. It is rather difficult to separate the military from the non-military outlays on the basis mentioned above. For this reason, the budgetary estimates, where these outlays were separately listed, were used in this tabulation.

652 659 A second point which should be noted concerning the military expenditure for economic construction might well be considered military rather than economic. In the budget of the Nationalist Government, for example, outlays for developing aircraft-manufacturing industries, ammunition industries, and so forth are usually classified as military expenses, whereas they would probably be considered as economic outlay in the Communists' report.

652 A third point to be noted is that, if the depreciation charges and outlays for maintenance and replacement in government enterprises were excluded from government receipt and expenditure, as should normally be the case, the relative importance of military expenditure for the years under consideration would have been much greater than those shown in the fiscal reports.

Even allowing for these adjustments, the fact that government outlays for economic, social, and educational purposes has been substantially increased under the Communist regime is obvious when compared with the conditions under the Nationalist Government. Whether these expenditures have actually been a contribution to improving the economic and social welfare of the people is, of course, another question entirely.

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EXPENDITURES AND RECEIPTS OF THE PEOPLE'S REPUBLIC OF CHINA*

	1950	1951	1952	1953	1954
Expenditures					
Military	41.50	42.52	26.23	-	24.19
Government administration	19.21	14.71	11.83	44.62	11.74
Other	2.64	2.01	3.49	-	-
Economic construction	25.51	29.50	44.79	40.38	52.07
Cultural construction	11.11	11.26	13.66	15.00	12.00
Receipts					
Agricultural tax	28.01	18.24	15.69	14.90	13.33
Industrial & commercial taxes	43.84	49.16	42.28	43.43	36.46
Receipts from govt. enterprises	12.76	25.64	28.55	35.40	40.49
Income from credit & insurance	4.87	4.79	1.53	3.00	1.26
Other	-	-	-	14.41	-

*In percentage of total government expenditure. Based on Economic Weekly Feb. 26, 1953, p. 17; People's Daily, June 18, 1954, and July 10, 1955.

652 In the following sections, we shall examine at length certain phases of Communist China's fiscal policy during the first five years of occupation of Mainland China. They include the agricultural tax, the taxes on commerce and industry, and government bonds. As will be seen, the revenues discussed are all recurrent in nature. No attempt is made to study such non-recurrent levies as those imposed during the Five-Anti movement. Because of the extraordinary nature of these impositions, it is not likely that these measures can be successfully used again in the near future.

II. URBAN TAXATION

651 In Communist China, the core of urban taxation has consisted of the business tax, the tax on business income, and commodity taxes.

None of the trio is new in China. Under the Nationalist Government, the business tax was collected as a local tax, the tax on business income was a part of the income tax system, and the commodity tax constituted one of the main revenues of the Nationalist Government.

Under the Communist government, all these taxes were drastically reorganized, apparently under the influence of the Russian tax system, but there has been relatively little regional variation. From 1949 to date, the system of urban taxation has already undergone several important changes. Its history which may be divided into two stages, the first of which covers the period from January 1950 to Dec.1952.

1:Stanford U. S-4,5 1956 AF15 East China AF15

651 areas where land reform has been completed probably prevails.

In East China, rice paddies rather than dry farms are cultivated as a rule. Because of the amount of manual labor involved, the cost of production is normally higher for rice paddies than for dry farms, and for this reason the failure to allow for cost of production in reckoning the taxable income is particularly serious to farmers in East China.

IV. GOVERNMENT BONDS[2]

652 Since the Communist Government came into power in 1949, two issues of government bonds have been made, the first issued in 1950 called the People's Victory Bonds and the second in 1954 called the National Economic Construction Bonds. The first issue had an authorized amount of 200 million fen ( ), of which one half was issued in 1950. The fen is a commodity unit consisting of a total of 6 shih chin of rice, 1.5 shih chin of wheat flour, 16 shih chin of charcoal, and 4 shih chin of undyed cloth. The Jen-min-p'iao (JMP: People's currency) price of each of these constituent commodities is determined on the basis of the weighted average of the prices of the commodity prevailing in Shanghai, Tientsin, Hankow, Canton, Sian, and Chungking, using the weight of 45, 20, 10.5 and 10, respectively. The JMP price of the fen is represented by the sum of the values of its constituent commodities. All subscriptions, redemption, and interest payments on the bond issues have been made in JMP on the basis of

2. Based on reports published in Economic Weekly, Jan. 19, 1950, pp. 12-16. [807]

652 the value of the fen. The reason for using the fen unit is to safeguard the interest of bond-holders against possible depreciation of JMP notes.

The first bond paid an interest of 5 per cent per annum. The entire amount of the bond issue was to be redeemed by lots in five annual installments on the basis of the following schedule:

Year	Amount to be redeemed
1951	10%
1952	15
1953	20
1954	25
1955	30

Subscriptions for such a bond issue may come from three sources:

First, the interest yield on the bonds is lower than that prevailing in the market. In 1950, when the bond was issued, the banks in China were paying about 20 per cent per annum for deposit.[3] The yield of 5 per cent from the bond is apparently on the low side. Second, the system of the commodity unit may not provide any protection against the depreciation of JMP.

3. In June 1950, for instance, the interest in Shanghai amounted to 18/1000 per month or 21.6 per cent per annum. See Economic Weekly, Vol X, No. 24, June 15, 1950, p. 18.

652 This is possible because of the fact that the price of commodities included in the fen unit have been subject to government control and manipulation. According to official statistics, China's commodity prices in general were about 8 per cent lower in 1952 than they had been in 1950. A third possible burden which may arise rom such bond subscription lies in the fact that holders of the first bond issue often will be required to re-invest their funds in other bonds having a longer maturity and bearing a rate of interest lower than that of the first bond issue. This was actually what happened in 1954. It is beyond doubt that one of the purposes of issuing the National Economic Construction Bonds in that year was to reabsorb the funds paid out to holders of the first bond.[4]

The second bond issued by the People's Republic of China amounted to 6,000 billion JMP yuan (about US$2,400 billion) and went on sale in January 1954. The purpose of the bond was to "absorb surplus private savings" with a view to speeding up economic construction. The bond carries an interest of four per cent per annum and is redeemable in eight annual installments, to begin in 1955. According to a report published in the Far Eastern Economic Review, a part of the proceeds derived from sales of the new bond was applied to the repayment of the Victory Bond issue of 1950.

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4. Far Eastern Economic Review, Hong Kong, Vol. XVI, No. 14, April 8, 1954, p. 437.

652 Twenty-five per cent of the 100,000,000 fen issued were to be redeemed in 1954 and another 30 per cent in 1955, making a total of 55,000,000 fen redeemable in these two years. At the rate of 15,000 JMP to one fen, 55,000,000 fen would amount to about 820 billion yuan of JMP. This would be equivalent to about 14 per cent of the total amount of the second bond issue.

It was clearly stated by the Communist regime that the bond sales in 1950 would be directly mainly to residents in urban areas, particularly those in private industries and commerce, rather than to the rural population, civil servants, military personnel, and laborers. Consequently, the bulk of the first bonds were subscribed by the residents in cities.

The amount of government bonds purchased by East China was particularly large. Out of the total of 100 million fen of bonds sold in 1950, 45 million fen were subscribed by residents in East China, as against 30 per cent for Central-South China, 15 per cent for North China, 7 per cent for Southwest China, and 3 per cent for Northwest China. While there has been no official allocation for the subscription of the second bond as there has been for the first, beyond doubt East China contr ibuted the lion's share of the total subscription. It is therefore clear that the burden arising from government bonds has been mainly a burden for East China, especially Shanghai.

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Annex "A," Subparagraph 3d,
Economic Background

BANKING AND CURRENCY

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652 The banking system in East China mirrors the banking system of Communist China as a whole. It consists of branches of the following institutions: (A) People's Bank of China; (B) Bank of China; (C) Bank of Communications; (D) Chinese People's Construction Bank; (E) Agricultural Bank of China; (F) Joint State-Private Bank; (G) Credit Co-operatives (the basic banking structure in rural areas); and (H) the Chinese People's Insurance Company, which is also a depositary of long-term funds and may be considered as a part of the Communist banking system in China.

I. THE COMMUNIST BANKING SYSTEM IN CHINA

A. People's Bank of China

The head office of the People's Bank of China is in Peking. A regional branch office in Shanghai, functioning as a regional head office for East China, was reduced in rank after the promulgation of the new Constitution in September 1954 and the abolition of the Greater Administrative Area of East China;

453 the Shanghai office is now simply a branch
652 office subject to direct control by the head office.

There are, besides the Shanghai branch, five branch offices in East China, one in each provincial capital:

Nanking	-	Kiangsu Province
Hangchow	-	Chekiang Province
Hofei	-	Anhwei Province
Foochow	-	Fukien Province
Tsinan	-	Shantung Province

Sub-branch offices are established under each of these branches in counties (hsien), cities, and major towns. Temporary organizations, called central sub-branch offices, are set up at such places as political centers or communications centers to oversee a certain number of sub-branch offices, but may be abolished as soon as the need for such offices ceases.

In addition, and below these three kinds of branch offices, there is a layer of subordinate offices, called agencies, sub-agencies, and stations, handling deposits and payments. These are generally located on main thoroughfares in large cities, in villages, and within schools, factories, and on military posts, and

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offer ordinary banking services. A great number of such "low-hierarchy" banking offices are found in every part of Shanghai; traveling bank agents visit villages to collect deposits and extend rural credit.

According to incomplete statistics there are about 600 sub-branch offices and about 40 central sub-branch offices to be found in 438 counties, 45 cities, and 34 major towns in the five provinces of East China, besides several thousand agencies and stations.

The branch offices of the People's Bank of China in the provincial capitals are the highest monetary organ of each province, except that the Shanghai branch office reports directly to the bank's head office. The branch offices[1] are empowered to: (a) to adjust the circulation of the currency; (b) act as agent for the state treasury; (c) accept current accounts and promote savings accounts; (d) extend credits to industry and commerce, both public and private, either directly or through affiliated banks; (e) handle the clearings of

1. Kuo-min Ching-chi Shih-yung Tz'u-tien [Popular Dictionary of Practical Economics], Shanghai, Ch'un-min Press, 1953, p. 8,013.

1:Stanford U. S-4, 5 1956 AF15 East China
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453 652 bills, transfer accounts, and facilitate remittances; (f) extend rural credits either through its own agencies or through cooperatives; (g) look after the receipts and disbursements of foreign exchange handled by affiliated banks; and (h) handle any other monetary matters arising within their jurisdiction.

B. Bank of China

The Bank of China, a "semi-governmental" concern handling foreign exchange, is fully controlled by the Communist government. In view of its tradition and reputation, well-trained personnel, and overseas branches, the government allowed it to carry on business in its old status. The nine directors representing government interests were replaced with new government appointees, the twelve directors representing private interests were recognized, and new directors were elected from among the private shareholders at a recent shareholders' meeting. In fact, the Bank of China became a subsidiary of the People's Bank of China. Its head office was moved from Shanghai to Peking; the director-general of the People's Bank serves concurrently as the Chairman of the Board of the Bank of China, and the general manager of the Bank of China is appointed by the government.

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652 The Bank of China has 23 branches in China proper, wherever there is thriving foreign trade or a concentration of overseas remittances; a total of 11 overseas branches are maintained, at Hong Kong, London, Singapore, Penang, Kuala Lumpur, Calcutta, Bombay, Karachi, Chittagong, Rangoon, and Djakarta. These branches, established by the previous management, were transferred to control of the present management when Great Britian, India, Burma, and Indonesia recognized Communist China. Eight branches -- Saigon, Phnom Penh, Bangkok, Osaka, Tokyo, Havana, New York, Sydney -- are located in countries which did not recognize Communist China, and these branches are still controlled by the head office of the Bank of China in Formosa.

The Bank of China has six branches in East China: Shanghai in Kiangsu Province, Tsingtao and Chefoo in Shantung Province, and Foochow, Amoy, and Ch'üan-chou in Fukien Province. Under the three branches in Fukien Province there are a number of overseas Chinese "service" stations.

The Bank of China is entrusted by the People's Bank with the task of: (a) attending

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453 652 to matters connected with the control of foreign exchange; (b) handling foreign exchange, foreign securities, bills of exchange, and other commercial documents payable in foreign currency; (c) extending credits, and accepting deposits in connection with foreign trade; (d) looking after the accounts and clearings of foreign trade conducted by and through government organizations; and (e) controlling overseas remittances.[2]

Branches of the Bank of China, as agencies of the People's Bank, can engage in banking transactions other than foreign exchange if so directed by the People's Bank.

C. Bank of Communications

The Bank of Communications, a "semi-governmental" concern for handling industrial credits, was also allowed to continue in its old status because of its fine reputation as traditional as that of the Bank of China. The twelve directors representing government interests were replaced by new government appointees, and nine directors representing private interests were recognized. New

2. Ching-chi Chou-pao [Economic Weekly], Shanghai, No. 31, 1952, pp. 616-617.

453 directors were elected from among the share-
652 holders at a recent shareholders' meeting.

The Bank of Communications has its head office in Peking and maintains nearly 160 branches throughout the country, wherever modern industries exist. Of its three overseas branches, Hong Kong, Calcutta, and Rangoon are under the control of the Peking head office; because France and the Philippines have not recognized Communist China, the Saigon branch and the Philippine Bank of Communications (a subsidiary) are run by the head office of the Bank of Communications in Formosa.

Among the more important of the branches functioning in East China are: Shanghai, Nanking, Soochow, Wu-hsi, Ch'ang-chou, Chen-chiang, Nan-t'ung, Hsü-chou, Hai-men, and Ch'ung-ming in Kiangsu Province; Hangchow, Chia-hsing, Hu-chou and Ningpo in Chekiang Province; Wu-hu and Pang-pu in Anhwei Province; Foochow and Amoy in Fukien Province; and Tsinan, Tsingtao, Chefoo, Wei-hsien and Po-shan in Shantung Province

The Bank of Communications is authorized by the People's Bank to (a) handle government appropriations set aside for government construction and screen and approve applications for appropriations for such construction; (b) organize long-term investment markets; (c) control ownership rights for public shares of enterprises

1:Stanford U. S-4, 5 1956 AF15 East China
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453 operated by joint state-private interests; and
6521(d) handle long-term credits.[3]

Upon the establishment of the Chinese People's Construction Bank in 1954, the handling of appropriations for construction was transferred to the new bank; the Bank of Communications is now limited to looking after long-term credits to joint state-private industry. It is expected that the two banks may be merged as soon as the joint state-private industry becomes a state enterprise.

D. Chinese People's Construction Bank

The Chinese People's Construction Bank was established in October 1954 to handle the increasing number of government appropriations for construction projects and to meet the need for tighter supervision of expenditures for this purpose. Although the bank is nominally under the control of the Ministry of Finance, it is in effect another subsidiary of the People's Bank of China: it receives the appropriations from the People's Bank, credits them to the account of projects, and supplies to the projects the necessary short-term credits which are provided by the People's Bank according to the

3. Cheng Chu-yüan, Monetary Affairs of Communist China, Hong Kong, The Union Research Institute, 1954, p. 25.

1:Stanford U. S 4, 5 1956 AF15 East China
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453 government's credit plans. The Chinese People's
652 Construction Bank has, therefore, only a negligible area of fiscal discretion.

Within a few months after its establishment, the Chinese People's Construction Bank set up branches near all government industries and stationed its agents at less important points. The branch offices are located in buildings occupied by the People's Bank of China or the Bank of Communications.

The bank's functions are: (a) to look after the funds for construction projects, either as provided by appropriations from the budget or as raised by the projects themselves; (b) to supply short-term credits to the contracting organizations undertaking work for the projects, according to the government's credit plan; (c) to settle accounts and make returns in accordance with the government's appropriations for the projects; and (d) to supervise the use of funds appropriated or raised, the arrangement of payment between the projects and contracting organizations, and matters related to the financing, cost-accounting, and investment in these projects.[4]

4. New China News Agency, Peking, Sept., 13, 1954.

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E. Agricultural Bank of China

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The Agricultural Bank of China was established on March 25, 1955, and operates under the control of the People's Bank of China. Its functions are (a) the extension of long-term and short-term credits to jointly-operated agricultural, stock-raising, fishery, mutual-aid, and co-operative organizations as well as to individual producers; (b) the handling of capital investments allocated in the state budget for agriculture, forestry, and water conservation; (c) the guidance of credit co-operative organizations; (d) and the provision of savings-deposit services for rural residents, mutual-aid and co-operative organizations, collective farms, state agriculture, and water conservation.[5]

This bank was established to foster the acceleration of the Communist policy of co-operativization of agriculture. Its chief function is to promote and supervise credit co-operatives and to assure that extension of rural credits is soundly conducted.

F. Joint State-Private Bank

The Joint State-Private Bank was created in December 1952 as the result of the merger of

5. New China News Agency, Peking, March 25, 1955.

1:Stanford U. S-4, 5 1956 AF15 East China
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652 sixty private banks in Shanghai. It represents the extermination of private-banking enterprise in China. Its board is composed of 27 directors representing the Communist government and 76 directors representing private interests. The assistant managing director of the People's Bank is concurrently the chairman of the board of directors. The director of the East China regional office and the manager of the Shanghai branch of the People's Bank of China are concurrently vice-chairmen of the board of the Joint State-Private Bank with three vice-chairmen appointed from among the private bankers. The joint administration of the bank is headed by the vice-chairman who serves as manager of the Shanghai Branch of the People's Bank. Thus the Joint State-Private Bank is nothing more than a subsidiary of the People's Bank. Its head office is located in Peking; all branches of the component banks were merged and are now limited to branches in thirteen cities.

The merger resulted in unemployment for many bank employees. In Shanghai, for example, of 5,100 former staff members, 2,500 were employed by the new bank, 1,300 by the People's Bank, and the remaining 1,300 were sent to vocational training schools.[6] Failure to provide

6. Confidential report of Shanghai Commercial and Savings Bank, Hong Kong.

1:Stanford U. S-4, 5 1956 AF15 East China
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453 employment for all created bad feeling among
652 displaced banking employees.

The Hong Kong branches of nine component banks, namely Chin-ch'eng Banking Corporation, Yen Yeh Commercial Bank, China and South Sea Bank, Hsin Hua Savings Bank, the China State Bank, Ho Ch'eng Bank, the Young Brothers Banking Corporation, the National Commercial Bank, and the National Industrial Bank, were allowed to continue operations under a supervisor appointed by the People's Bank and stationed in Hong Kong.

The branch of the Shanghai Commercial and Savings Bank, a component bank which had been separately registered under Hong Kong banking regulations and had a separate board of directors, severed connections with its Shanghai head office and submitted to the control of its head office in Formosa, established in 1954 by permission of the Chinese Nationalist Government. The Chekiang First Bank of Commerce in Hong Kong, the parent of which is also a component bank, was established in 1950 with independent capital under Hong Kong banking regulations; it now operates as a local bank. Thus the Shanghai Commercial Bank and the Chekiang First Bank of Commerce in Hong Kong are the only remnants of Chinese commercial banking.

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453 The Joint State-Private Bank has
● 652 branches in Shanghai, Nanking, Hangchow Tsingtao, and Amoy. Under the Shanghai branch there are twenty-seven agencies within the city. The functions of the Joint State-Private Bank are (a) the handling of accounts of private enterprises; (b) the extension of short-term credits to private enterprises, subject to approval by the People's Bank; (c) the handling of overseas Chinese remittances and inland remittances for the account of the Bank of China through the branches of component banks still operating in Hong Kong; (d) the acceptance of savings deposits for the account of the People's Bank.[7]

G. Credit Co-operatives

452 The credit co-operatives, the basic level
474 of the People's Bank in rural areas, are of three types -- credit co-operatives, credit departments, and mutual-aid teams.

The credit co-operative is a high-level organization with members and a board of directors; capital shares are subscribed by the members, and these deposits become the co-operatives's main financial source.

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7. Ibid.

1:Stanford U. S-4, 5 1956 AF15 East China AF15

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BANKING SYSTEM IN EAST CHINA

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H. Chinese People's Insurance Company

456 On assuming control of Shanghai, the Communists took steps to eliminate both foreign-operated and Chinese-owned insurance firms and to convert the insurance business into a government monopoly. On October 20, 1949, the Chinese People's Insurance Company, a government concern, was established under the guidance of the Ministry of Finance and the People's Bank; its branches, sub-branches, and agencies now extend throughout China. All offices of the People's Bank in small towns and rural areas act as its agents. Government agencies, state enterprises, and co-operatives, and all persons traveling by train, steamer, and airplane, must obtain insurance from this company. Fire, accident, automobile, agricultural, and life insurance are voluntary, but collective personal insurance and insurance on plowing animals and cotton crops are particularly encouraged.

Concentration of the entire insurance business in the Chinese People's Insurance Company and promotion of all forms of insurance serve as an important means of accumulating 453 scattered funds in the People's Bank. The 652 following chart outlines the banking system in East China:

436 payments, the balance of supplies, and of
652 foreign trade. When translated into the language of a capitalist economy, this means that the stability of the currency is secured by excessive imposition, controlled distribution of supplies, forced concentration of cash funds in government banks, and exports made possible by domestic starvation.

B. Currency Control

People's Bank notes had been stabilized before China's economy was fully controlled. As had been true with previous currencies, the new currency also underwent its acid test in the Shanghai market. Issue of the People's Bank notes began in Shanghai in June 1949, at PB$ 1 for 100,000 Nationalist dollars. One silver dollar was redeemable by PB$ 1,200, and all gold, other silver, and all foreign currenc was prohibited from circulating. The first reaction in Shanghai was unfavorable, with gold, silver, and hard currency prices soaring; this reaction spread throughout the whole country.

In November of 1949 the rate per silver dollar was raised from PB$ 1,200 to PB$ 2,000, while the black-market rate rose from PB$ 2,800 to PB$ 4,500 from July to November 1949. United States Dollar notes similarly increased in the same period from PB$ 2,000 to $6,700 on the official counter and from PB$ 2,800 to

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436 652 $3,000 in July, to $17,000 on the black market in November.[16] The price of rice multiplied nine times from May 30 to November 8; the curb interest rate increased from 36 per cent per annum in July to 100 per cent in November.[17]

Acting to slow this inflation, the Communists imposed strict controls on jewlers, whose customers had to furnish all materials, who were forced to make detailed reports of all transactions; hundred of illegal operators and loan sharks were arrested; all exchange shops and gold shops were closed. The government collected some essential materials for dumping on the market, and party cadres on every commodity market enforced government fixed prices. These measures slowed inflation but did not stop it; the end-of-1949 price index was thirty times that of May 1949. People's Bank notes were stabilized for the first time when the government announced its nearly balanced budget for 1950, and when an issue of Victory Bonds forced the expenditure of surplus purchasing power.

The initial stability of the People's Bank notes was nearly broken by China's participation

16. Far Eastern Economic Review, Hong Kong, Dec. 1, 1949, pp. 702-703.
17. Ibid., Feb. 2, 1950.

436 in the Korean War and the resulting budget
652 deficit. But the inflationary pressures were
● quite successfully suppressed by a web of controls covering the entire economic life of the people.

Between January 1950 and February 1955, the pubchasing power of People's Bank notes steadily declined. Measured by parity unit, PB$ 14,055 in January 1950 had the same purchasing power as PB$ 24,829 in February 1955. The value of People's Bank notes, in comparison with the Hong Kong dollar, declined approximately 16 per cent in the same period (January 1950, PB$ 3,498 = one Hong Kong dollar; in February 1955, PB$ 4,270 = one Hong Kong dollar).[18]

The main instrument of currency control was the reduction of currency in circulation by forcing people and organizations to open bank accounts, restricting the cash they might hold, and the promotion of savings deposits. The most ruthless and also the most effective measure for reducing currency circulation was the extraction of personal savings by force. Of the issue of Victory Bonds of US$ 70 million, about 45 per cent was allocated to East China.

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18. Ibid., Feb. 2, 1950, p. 159; and March 3, 1955, p. 282.

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436 A donation campaign begun by the Communists
652 in 1951 drew the equivalent of US$ 220 million, or 40 per cent of the total expected from East China. The Three-Anti Campaign to eradicated graft and corruption, and the Five-Anti Campaign to prohibit illicit profits made by private capitalists, involved some 100,000 public servants and 450,000 owners of private enterprises, from whom an enormous amount of fines was extracted. Crowds swarmed into the People's Bank in Shanghai early in 1952 to convert their hoarded gold into notes in order to pay their fines, and virtually all private gold hoards in the cities were wiped out at that time.

The reconstruction loans issued in the period 1935-55 were designed to gain control of excess savings of the workers and the peasants and were not directed primarily toward the well-to-do.

IV. PEOPLE'S REACTION TOWARD COMMUNIST CURRENCY

436 Paper currency first became acceptable in East China, particularly south of the Yangtze River, because foreign notes were frequently brought back to Amoy by overseas Chinese. But the preference for precious metals and hard currencies has never been abandoned, and the preference was strengthened by the collapse of the Nationalist currency. The Chinese people have no more confidence in Communist currency